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Economic Outlook. *Recession seems likely to be moderate. Pickup by next spring, with second half reasonably robust. But such a forecast is put forth tentatively. Reasons for caution.* 1

Wage Trends. *Recession, lower inflation will slow the wage rise. Changes are likely to be moderate, but new elements in the wage picture may be signaling something more dramatic.* 5

Leasing Boom. *Companies—money makers and money losers—are finding it easier to buy and sell unused tax benefits. The vehicle: tax leasing. There are big implications for corporate finance—and for Treasury revenues.* 8

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Economy Watch

THE flow of recent economic statistics hardly gives off a glow of good cheer. All the indicators suggest that the economy's performance through the winter will be weaker than most analysts expected as recently as a month ago.

Unemployment in November stood at 8.4%, higher than at any time since the 1974-75 recession. Auto sales in November matched the lows during last year's recession—a level below any in the past twenty years. The housing industry, meanwhile, continues to scrape along at the lowest rate of activity in more than a decade.

Even bleaker statistics seem likely in the months ahead. The main reason is the need for the economy to work down excess inventories. That need could be seen in revised third-quarter GNP data, which showed that durable-goods inventories accumulated during the summer at a considerably more rapid rate than had previously been indicated (box on page 4). With the benefit of hindsight, it is clear that the summer's bulge in inventories was the dominating influence that tipped the economy into recession.

A key to how long it will take to work off excessive stocks will be consumer purchases in the crucial Christmas period (when many merchants ring up a fourth to a third of their annual sales volume). The Christmas shopping season got off to a slow start, judging by November reports from the nation's major retail chain stores. In some cases, sales last month were lower than in the same month in 1980, while other chain stores reported a moderate pickup in response to promotional activities. Even these mixed readings are more positive than the concerns voiced earlier by many merchants who were apprehensive that autumn's abrupt deterioration in consumer buying intentions pointed to grim yearend business.

For the current quarter, The Morgan Bank projects a decline in "real" GNP of 5.3% at an annual rate (accompanying table). Weakness is expected to extend into the early months of 1982, with economic activity stabilizing in the spring. And, in the second half, economic activity is expected to be reasonably robust—due importantly to a \$45-billion annual-rate lift to disposable personal income scheduled to come on July 1 from the second stage of the tax cut and from a rise in Social Security benefits.

If economic trends turn out that way, the current recession would rank as a moderate one. Assuming that the low point is reached in the first quarter of 1982, real GNP will have suffered a peak-to-trough loss of just under 2%.

That projected pattern for economic activity fits the broad consensus of government and private forecasters. Still, it is put forth with something less than supreme confidence. The ability of economists to divine the future has not been impressive in the past year. Economists generally did not expect the surge in activity in the first quarter (when real GNP climbed at a steep 8.6% annual rate), and as recently as October most economists were not anticipating a recession in 1981. Forecasters did progressively lower their sights as the year wore on (chart on page 3), but the dominant view—until economic activity actually began receding—was that a full-fledged recession would be avoided.

What has plagued forecasts made for 1981—and what makes such exercises for 1982 so uncertain—is the unusual condition of the economy. There is substantial potential for economic growth to make up for the prolonged period of slack in economic activity that began in 1979 and which has left a large unmet need for housing and business plant-and-equipment outlays. Additionally, taxes have been cut and a major

Economic Projections

(Percent change at annual rate from previous quarter, except where noted)

	1981			1982	
	Q2	Q3	Q4	Q1	Q2
Real GNP	-1.6	0.6	-5.3	-0.4	3.8
Real consumer spending	-2.1	4.0	-2.2	2.8	2.2
Real business-capital outlays	-2.2	4.3	-9.7	-0.3	2.2
GNP deflator	6.4	9.5	8.5	6.5	6.2
Consumer prices	7.5	11.9	7.8	6.6	6.3
Real disposable personal income	1.4	2.6	2.4	0.1	2.3
Saving rate (%)	5.4	5.1	6.1	5.5	5.6
Housing starts (Millions)	1.18	.97	.86	1.02	1.19
Auto sales (Millions)	7.8	9.1	7.6	8.1	8.2
Unemployment rate (%)	7.4	7.2	8.3	8.5	8.6

NOTE: 1981 Q2 and Q3 data are actual. Approximately one percentage point of the rise in the GNP deflator in the fourth quarter reflects the timing of federal pay increases.

military buildup is pumping tens of billions into defense industries.

Given those forces, the really extraordinary thing in many respects is that the expansion which began after the 1980 recession was so short-lived. The recovery, which lasted only four quarters, ranks as the shortest since 1913.

The brevity of the 1980-81 upswing can be explained by Federal Reserve monetary policy. The Fed, in its efforts to undernourish inflation, has clamped down hard on the growth of money. In the past year, for example, M1B (narrowly defined money supply) has grown by only 3.6%, roughly half the rise in the previous year. As a consequence, interest rates were

pushed to record highs, severely constraining activity in credit-sensitive industries and ultimately generating summer's mini-bulge in inventories.

Even though some progress toward lessened inflation is being recorded (with this bank's projections anticipating further slippage in the rate of increase in 1982 to about 7% for both the GNP deflator and the CPI), that progress has not been sufficient to justify any material change in basic Fed policy. The presumption must be, therefore, that 1982 will continue to see the Federal Reserve keeping the economy on a decidedly shortened ration of money. Whether money growth targets will prove accommodative enough to permit significant reacceleration in economic activity during the second half (as is now commonly forecast) without a renewed upward interest-rate movement is uncertain.

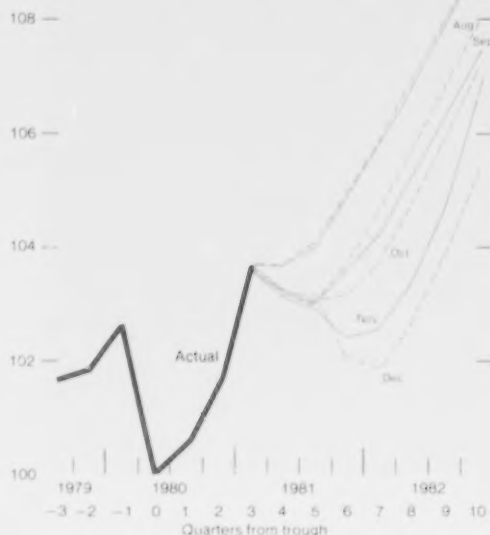
The conflict between economic growth and monetary policy is apparent from the consensus view as to how much expansion is likely in nominal GNP between the fourth quarter of 1981 and the fourth quarter of 1982.

In general, most forecasters anticipate an increase in nominal GNP over that span on the order of 10% to 12%. By contrast, the Fed has tentatively set a maximum allowable rate of M1B growth for the period of 5½%. Under these circumstances, obviously, money would have to "work harder"; that is, the velocity or "turnover" of the money supply would have to rise. Historically, sharply increasing money velocity has been accompanied by a rise in interest rates. That could well be the consequence once again. And if interest rates were to rise appreciably again, that would raise questions as to whether cyclical expansion could be sustained for any length of time in 1983. The unanswered question is whether the economy will repeat this year's start/sputter pattern.

A final, and crucial, element in the outlook

Index: 1980 2nd quarter = 100
110

"Real" GNP Forecast: Blue-Chip Consensus Shifting Down



NOTE: The Blue-Chip consensus is an average by Eggert Economic Enterprises of 40 forecasts.

is the news that will be tumbling out of Washington next month—particularly the budget for 1983. Financial markets will be waiting to see how President Reagan responds to the formidable challenge of getting his budget-disciplining effort back on track. Advance reports in the press paint a grim budget picture—with preliminary deficit numbers in excess of \$100 billion in the current year and even larger amounts of red ink in fiscal 1983 and 1984. Administration officials, while not denying the huge numbers, have emphasized that renewed efforts to slash spending—and proposals for selective tax increases—are sure to reduce those preliminary deficit numbers.

Financial market reaction in early December to the worsened budget outlook clearly was negative. The urgent need is for credible pro-

TRENDS IN BUSINESS INVENTORIES

It now appears, retrospectively, that the punishment of high interest rates had a cumulative wearing effect on sales activity and generated an inventory buildup during the summer—an overhang that extended beyond autos, where excessive stocks caused problems at various times throughout the year.

Data lags plague prompt recognition of inventory overhangs, but inventory-sales ratios seem to have begun moving up quite sharply in July both in durable-goods manufacturing and nonauto trade establishments. Moreover, the situation apparently deteriorated through

October, with inventory/sales ratios in some sectors moving back to levels seen prior to the 1980 recession.

The inventory bulge does not seem particularly large compared with rates of inventory increase in previous years. But it does look large relative to the very tightly disciplined control of inventories that prevailed from late 1979 through the early part of this year (accompanying chart). A moderate inventory correction is now under way that probably will extend into early 1982, Christmas retail volume will heavily influence inventory behavior.



posals for working down the deficit over a period of years. Continued apprehension in financial markets would work against any sizable de-

cline in long-term interest rates—a decline that is essential to renewed vigor in housing and capital investment.

Wage Gains: How Much Slowing Ahead?

THE rise in wages in the year ahead seems sure to slow from this year's pace. The reason, of course, is that the two most important determinants of wage change—unemployment and inflation—will exert a restraining influence.

Unemployment has held above 7% of the workforce for the past year and a half and is expected to remain above 8% for all of 1982. Inflation, meanwhile, has slowed from 12.7% in 1979 (based on changes in the consumer price index) to roughly 9½% this year—with further easing to about 7% a good prospect for the year ahead.

In that environment, wage-rate gains seem certain to slow. But by how much? If the record of the past two decades is any guide, only a moderate slowing can be expected. But there are new elements in the wage picture which could be signaling a considerably more rapid slowing in wage gains—if not next year then perhaps in 1983.

Wage insensitivities

In recent years, wage gains have shown remarkably little sensitivity to short-term economic developments. For example, the 1974-75 recession, the most severe in forty years, reduced the rate of wage increase by only about one percentage point.

In the unionized sector, wage inflexibility can be explained by the prevalence of three-year contracts, which mandate wage increases until the next bargaining cycle. And when bargaining does take place, wages are negotiated on the basis of expected trends over a three-year period, not just on current conditions.

Wages in the nonunionized sector, curiously

enough, show a similar pattern of rigidity. The chief reason seems to be that employers do not adjust wage rates in response to short-term developments. Instead, most employers, viewing their relationship with workers as a long-term one, tend to keep wages rising in line with what they perceive to be the general trend.

If wage rates continue this earlier pattern during the current cycle, wage-rate increases in 1982 probably will reach 8%, down only a percentage point from the 1981 rise. But that moderate decline ignores two significant new elements in the wage picture which were not present in earlier cycles.

- One union after another, worried about rising unemployment and the threat of business failures, has been giving up wage gains, accepting wage freezes, and some have even taken reductions in wages. There hasn't been anything like this on the labor scene since before World War II.

- The Federal Reserve has shown staunch determination to wring inflation out of the economy—pursuing a consistently restrictive policy unmatched in the postwar years. This restraint has pushed the economy into its second recession in as many years.

What are the chances that these two new elements—consistently restrictive monetary policy and a new willingness of some unions to moderate earlier wage gains—will bring about a more dramatic slowing in the pace of wage inflation? Such a slowing is not indicated by wage patterns thus far. The rate of increase in all three of the most widely followed indexes of wage rates, to be sure, is no longer pushing upward (charts on page 6). The employment cost index and the index of compensation per man-hour have been moving sideways since the

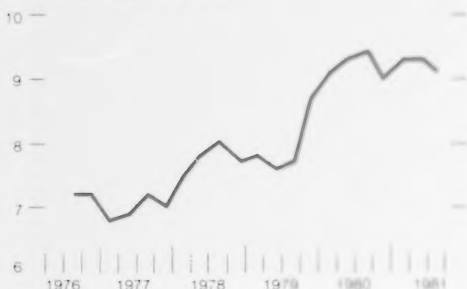
Percent change from year ago

Latest Trends in Wage Rates

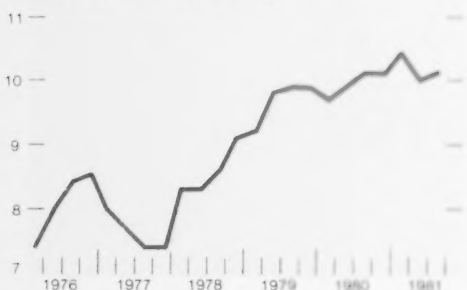
Average Hourly Earnings



Employment Cost Index



Compensation per Man-hour



NOTE: Average hourly earnings are adjusted to remove the effects of interindustry shifts and changes in overtime hours in manufacturing. Compensation per man-hour is for private nonfarm production and nonsupervisory workers and covers the costs of benefits as well as wages. The employment cost index and hourly earnings cover only wages.

beginning of the year. And the rise in the more volatile average hourly earnings series has decelerated noticeably—particularly during the past six months. This improvement, however, is no more than would have been expected on the basis of past cyclical experience.

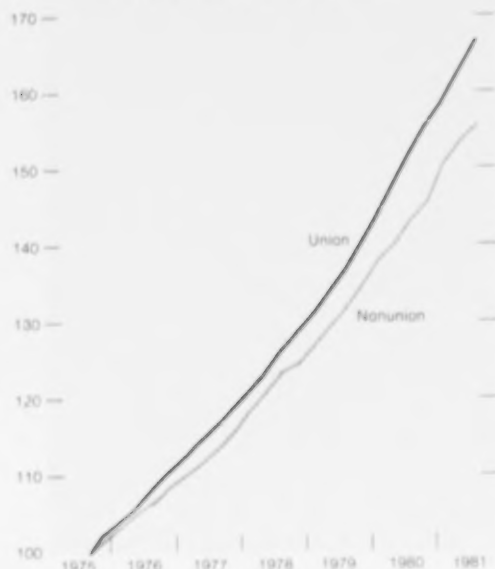
There is little evidence, either, that a dramatic slowdown is imminent. Even though the Federal Reserve has pursued two years of very restrictive credit policies, recent surveys indicate that inflation expectations, while showing somewhat lessened fears, nevertheless reflect continuing concern about the future trend of prices. Long-term interest rates, despite some recent easing, remain historically high. Thus, there is little reason for optimism that an improved inflation outlook is about to lead to markedly reduced wage demands.

Nor is there much evidence that the downward pressure on some union wage rates is about to spread throughout the economy. For one thing, such pressures toward union wage moderation are by no means universal. In many industries, unions are pushing as hard as ever for higher wages. And pay packets of the huge service industries seem not at all affected.

Where the downward pressures on wage gains are evident, two forces (beyond the weak performance of the economy) are at work. The first is the increased competition being faced by a number of industries. In the case of trucking and air transport, the increased competition is the result of the loosening of government regulations which has allowed new companies to enter these industries. Many of these new entrants are not unionized, have lower labor costs, and thus have put a squeeze on union wage scales. In other industries—autos is a good example—increasing competition from abroad has been critical in moderating union wage rates. The increase in the value of the dollar in foreign

Index—third quarter 1975 = 100
180

Union vs. Nonunion Wage Rates



exchange markets has contributed to the intensification of foreign competition.

The second key factor behind the current downward influence on wages in some parts of the labor market is the rapid pace of wage increases for union members since the early 1970s. In just the past six years, union wage rates have risen by 10% more than have wages of nonunion members (chart above). The increase in relative wages has been particularly sharp for several of the larger unions. For example, during the 1970s, the wage rates for steel and auto workers increased by 20% and 30% respectively more than did wages generally. This startling rise in relative union wage rates was far out of line with underlying economic conditions and has made wages in those industries vulnerable as the economy has weakened and as competition has grown more intense.

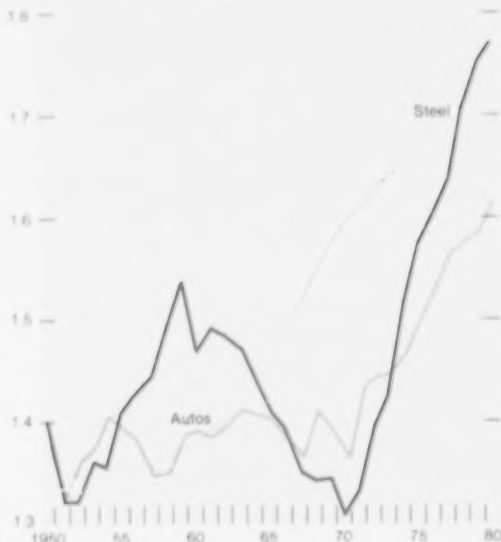
December 1981

The current squeeze on key union wage rates, therefore, appears to be largely a relative wage phenomenon and may well have little bearing on general wage trends. Just as nonunion wages did not rise in step with union wages during the 1970s, they are not likely to slow to the same extent now. Since unionized workers account for only about 20% of the labor force, general wage trends may be affected very little.

During the past decade, wage-rate changes have been very "sticky"—responding only partially and with a lag to sharp swings in inflation and unemployment. Despite new elements in the current environment and some prospective slowing in wage-rate increases, no breakthrough in the trend of wage rates is in sight.

Ratio of industry to average wage rates*
1.9

Steel, Auto Wages Outpace the Pack



*Average hourly earnings of production workers in steel mills and in motor vehicle manufacturing plants divided by average hourly earnings of all private nonfarm production and nonsupervisory workers

Leasing Gets a New Lift

THE nation's thriving leasing industry—with volume over \$25 billion in 1980—is getting a dramatic new impetus from The Economic Recovery Tax Act of 1981. Spurred by the new tax law, leasing could dramatically alter the financing of capital formation in this country. The revenue cost to the Treasury, however, could be steep—adding to already intense budgetary pressures.

New leasing rules essentially make it easier for corporations to buy and sell tax benefits. Companies with little or no earnings can sell unused depreciation deductions and investment tax credits to profitable companies that want to lower their tax liabilities. The companies selling the tax benefits—those either showing losses or having excess deductions and credits from large capital spending programs—would thus get an infusion of funds. (The box on page 9 describes a simple example of such a tax lease arrangement.)

Industry response to streamlining of leasing provisions has been dramatic. In the initial round of new leasing transactions—the deadline was November 13 for closing lease deals on equipment purchased during the first seven and a half months of this year—total leasing volume

is estimated by industry sources at well over \$10 billion.

By industry, sales of tax benefits were concentrated in airlines, railroads, motor vehicles, electric utilities, and primary metals (accompanying table). All of these industries fit the mold of the typical leasing candidate, with actual losses or with profitability low relative to the tax benefits associated with heavy capital investment programs. Of those companies that purchased tax benefits, electrical machinery, communications, and other services were most prominent—all industries with relatively large tax liabilities.

Leasing deals, of course, are nothing new. Over the years, leasing activity has spawned a

Leasing Scorecard: Tabulation of November 13 Tax Lease Closings

	Sellers	Buyers
Number of Announcements	42	26
Industry composition	(Percent)	
Airlines	14	—
Railroads	14	8
Electric utilities	12	—
Communications	2	12
Other services	2	19
Transportation equipment producers	12	—
Primary metals	12	4
Energy and mining	14	8
Stone, clay, and glass	5	—
Electrical machinery	—	35
Miscellaneous	12	15

NOTE: This Morgan Bank tabulation of leasing deals published in *The Wall Street Journal* over the November 9-19 period provides a representative sampling of actual closings.

*The principal reason the market for tax benefits is now more attractive is the recent liberalization of depreciation write-offs. The service life of most capital assets will be shortened by at least a third when corporate tax changes become fully effective in 1986. Moreover, leasing provisions themselves have been made more appealing by broadening the definition of equipment eligible for leasing, by permitting property ownership to be transferred back to the equipment user—once the lease has expired at a small or nominal cost, by eliminating the restriction that the leasing transaction had to be structured so as to show a profit for the purchaser of tax benefits, by allowing the user of the property to provide financing for the lease-sale arrangement, and by cutting in half (to 10% from the previous 20%) the minimum investment required by the company buying the tax benefits.

AN EXAMPLE OF TAX LEASING

TAX lease deals can be enormously complex. The following example highlights the basic elements of a typical transaction.

Assume that Company A needs to purchase \$100 million of assembly-line machinery. The company projects that it cannot use all of the tax benefits associated with the investment (the investment tax credit and depreciation write-offs).

Utilizing the new tax leasing rules, Company A orders and takes delivery of the equipment. Company B—typically one with a significant tax liability—then buys the “tax ownership” of the equipment for, say, 25% of the value or \$25 million in cash. This entitles Company B to the tax benefits arising from the machinery purchase. For tax purposes Company B is obligated to “pay” the balance due on this purchase. In reality, Company A makes such payments either from internal funds or by obtaining a loan. In either case, Company B is deemed to have assumed a debt obligation on the balance due. Such debt as-

sumptions are for tax purposes only and then are “repaid” by Company A through a schedule of rental payments that cover the debt service associated with Company B’s debt. This rental arrangement is only “on paper” and, in actuality, no cash will change hands between the two companies except for the original cash payment.

Both companies benefit.

Company A has been able to acquire the equipment for well under \$100 million and has the opportunity to deduct that cost as rent over the term of the lease.

Company B will have recovered, in the early years of the lease, most of its \$25 million initial investment and also will have had the interest-free use of substantial amounts of money from the deferral of taxes it would have otherwise paid. (This is the same benefit the user of the equipment would have had from tax credits and accelerated depreciation deductions if it had had sufficient taxable income against which to offset such deductions.)

dynamic and growing industry—with banks, other financial institutions, and corporations handling leasing activities through subsidiaries.

The chief purpose of leasing all along has been to provide an alternative to the direct and many times quite costly acquisition of capital assets by the corporate sector. That purpose is no different under The Economic Recovery Tax Act of 1981. What is different now is that the new tax rules have made it much easier for *all* firms to reap tax benefits associated with capital investment, whether or not they are profitable enough to use those benefits themselves.

Backers of the new tax rules stress that this is critically important in encouraging growth of the economy’s undernourished capital stock.

Certainly, newer firms, with ambitious investment programs, often require investments in capital assets which can be expected to generate little income in the early years. Unless such firms have significant income flows from older assets, depreciation deductions and tax credits can go to waste. An obvious remedy: transfer such benefits to companies that can use them. Additionally, older and relatively unprofitable companies, with outmoded production facilities, would be given an assist in their drive toward reindustrialization.

Moreover, proponents argue, an easing in tax leasing provisions, which encourages transfer of tax benefits, will also reduce the piling up by companies of unused tax deductions and

credits. In the past, this has been a prime lure for tax-motivated and potentially uneconomic mergers.

Explosive growth ahead?

Industry's dramatic response to the new leasing rules may, in fact, be only the beginning of a more protracted surge in leasing activity. Indeed, industry officials describe the recent bulge in leasing volume as "only the tip of the iceberg."

Measuring the volume of leasing activity—in order to put the flurry of recent deals in some perspective—is hampered by a lack of comprehensive statistics. One important source of data is an annual survey conducted by the American Association of Equipment Lessors (AAEL). The most recent survey showed new leasing volume of the AAEL membership at \$10.2 billion in 1980 (accompanying table). That number is estimated by AAEL to represent only 55% of over-all leasing activity. On that basis, the economy's gross flow of leasing business would have been about \$20 billion—an estimate industry analysts consider to be on the low side. Moreover, these figures exclude the volume of car leasing activity, which some industry experts estimate to be in the vicinity of \$15 billion annually.

Not all leasing activity shown in the AAEL survey would qualify, of course, under the tax-based schemes currently getting attention. Ordinary operating leases—e.g., the short-term rental of construction machinery—would not be considered for tax leases. Such operating leases account for about 15% of leasing activity (column three of the adjoining table). Moreover, AAEL estimates about a third of direct-financing leases are for purposes other than the exchange of tax benefits. On that basis, tax leasing

deals nationwide amounted in 1980 to roughly \$12 billion—about 6½% of all investment in producers' durable equipment as measured in the GNP accounts.

Tax leasing is estimated to have increased about 25% in 1980. With November 13 closings already bringing this year's tally to well over \$10 billion—and with a steady flow of stepped-up leasing activity likely in the final four and a half months of this year—the growth rate of tax leasing deals could easily double in 1981. And no end is in sight.

One indication of leasing's big potential is the

Leasing Activity in 1980

(Millions of dollars)

	Direct finance leasing	Lever- aged equity leasing	Operat- ing leases	Total leasing volume
All Industries	5,514	3,038	1,662	10,214
Computers	1,009	380	311	1,700
Office machinery (ex-computers)	805	—	249	1,054
Production machinery	844	292	101	1,237
Transportation equipment	838	1,966	668	3,472
Construction machinery	336	—	123	459
Agricultural machinery	369	—	45	414
Medical equipment	353	—	47	400
Nonproduction machinery	403	—	47	450
Other	557	401	71	1,029

SOURCE: 1981 Survey of Accounting and Business Practices, American Association of Equipment Lessors.

NOTE: Respondents represent approximately 55% of total domestic volume of new lease business.

LEASING'S POTENTIAL

THE potential for tax leasing activity is ultimately constrained by the pool of unused corporate tax write-offs—that is, the volume of tax credits and depreciation deductions that are not used as offsets against taxable corporate profits. Data on such unused deductions are hard to come by. The latest complete IRS tabulation of corporate income tax returns is only available for 1976. That report indicated that while corporations claimed investment tax credits totaling \$9.2 billion, they would have been entitled to another \$7.5 billion if they had been more profitable. Today's volume of actual tax credits is running around \$17 billion—suggestive of a dramatic increase in the pool of unused credits.

The adjoining table provides industry detail on unused tax credits during 1975—industry figures are not available for 1976. (Due to the complexities of various depreciation options, comparable data are not available for unused depreciation deductions.) While the data are over six years old, there is little reason to suspect that the distribution of unused credits by industry has shifted dramatically. If it has not, manufacturing firms—especially metals producers, motor vehicle companies, and integrated petroleum and coal concerns—seem likely to be the chief beneficiaries of tax credit sales. Outside of the manufacturing sector, public utilities and transportation service companies would seem to have the greatest potential for selling tax benefits. In view of the industry

tabulation of leasing deals closed on November 13, these 1975 statistics appear to have been a good predictor of leasing's "industry mix."

Unused Corporate Tax Credits

(Based on 1975 corporate tax returns)

	Unused credits (\$ mils.)	Number of returns (000)	Unused credit per return (\$)
All Industries	6,220.4	290.3	21,425
Manufacturing	1,972.9	47.8	41,292
Petroleum and coal	514.7	0.5	1,031,427
Primary metals	367.4	1.1	320,286
Motor vehicles	105.5	0.5	197,282
Chemicals	125.0	1.8	68,657
Other	860.3	43.8	19,652
Nonmanufacturing	4,247.5	242.6	17,511
Public utilities	694.2	2.4	284,987
Transportation	1,574.7	14.3	110,363
Mining	302.8	3.2	95,289
Communication	115.9	2.5	46,720
Other	1,559.9	220.2	7,084

SOURCE: 1975 Statistics of Income, Internal Revenue Service.

fact that the volume of unused investment tax credits—benefits which can now be easily transferred by a tax lease—appears to be quite large for the economy as a whole. Indeed, tabulations by the Internal Revenue Service of 1976 corporate tax returns (latest year available) indicated that unused credits were about 80% as large as actual credits claimed. If this relation-

ship between actual and unused credits has held up over time,⁸ then the current total of actual credits—estimated by the Treasury at around \$17 billion annually—would imply a pool of unused credits in the \$10-billion to \$15-billion

⁸IRS corporate tax tabulations indicate that over the 1962-76 period the cumulative volume of unused tax credits was 94% of actual credits claimed.

range. With the tax credit rate currently set at 10% of eligible equipment, leasing volume could grow to well in excess of \$100 billion in order to facilitate the transfer of such unused credits. Thus, recent leasing activity has hardly made a dent in the potential recapture of the total volume of unused tax credits (box on page 11). Moreover, tax credits are only part of the picture. Depreciation reform virtually guarantees that unused capital cost recovery write-offs will be as large as unused tax credits.

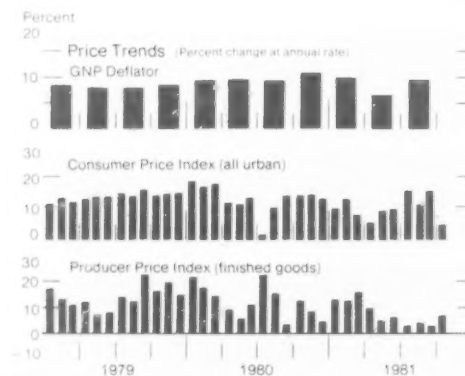
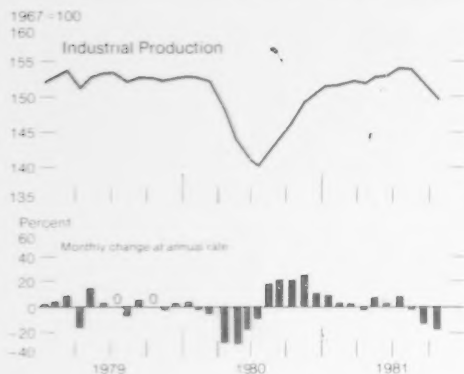
Implications

The new tax rules have radically affected leasing—both for companies that are money makers and for money losers. Distressed companies in many instances suddenly are benefiting from capital infusions. While a positive development in the case of some companies, the growing amounts of capital now being put in the hands of relatively unprofitable enterprises raises questions of efficient resource allocation.

There are big implications, too, for U.S. Treasury revenues. Such capital infusions, of course, have reduced the tax burdens of many profitable companies—a reduction that is slicing into U.S. tax revenues. Treasury estimates of revenue losses from leasing activity start at \$3 billion in fiscal 1982, climb to around \$5 billion in 1983, and reach about \$8 billion in 1984. If the leasing boom continues, as most industry analysts expect, the Treasury runs the risk of seriously understating the potential for revenue loss. Recognizing the possibility of an open-ended drain on Treasury tax revenues, some lawmakers already are proposing a second look at leasing provisions.

At a time of fiscal austerity, as the government struggles to get the budget under control, the fiscal impact of leasing clearly needs to be carefully monitored. If tax leasing turns out to make existing deficit strains even more acute, then the resulting pressures on bond markets could work against the well-intentioned capital-spending impetus.

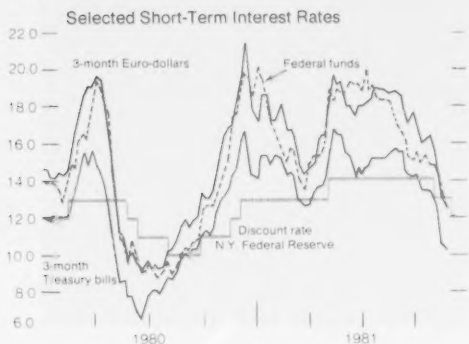
ECONOMIC INDICATORS



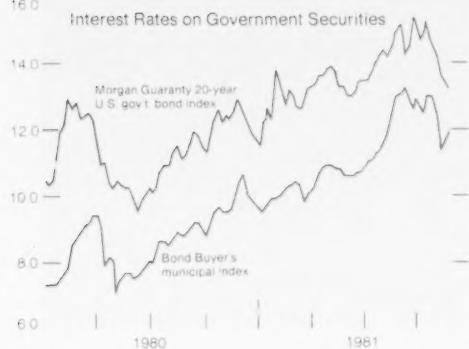
NOTE: All data are seasonally adjusted. Average hourly earnings are adjusted for overtime hours in manufacturing and for interindustry employment shifts.

MONETARY INDICATORS

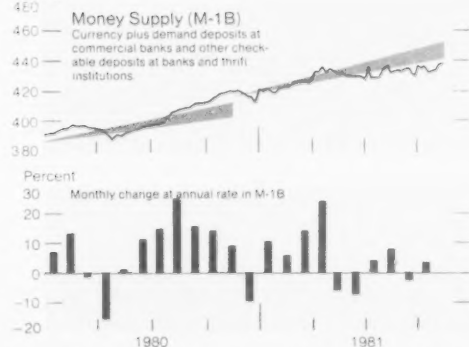
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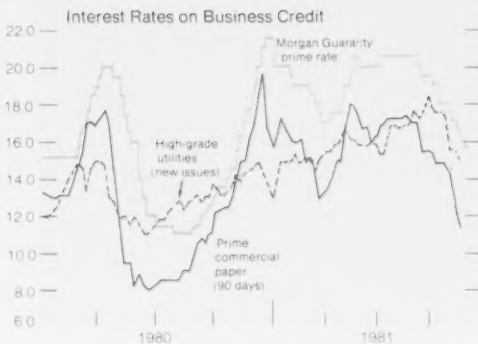


\$ Billion

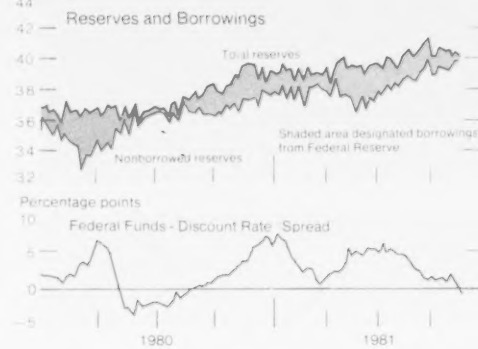


NOTE: Shaded areas on the money supply chart represent the Federal Reserve growth targets for the periods from the fourth quarter 1979 to fourth quarter 1980, and from the fourth quarter 1980 to fourth quarter 1981. Business loans are net of bankers' acceptances. All data except interest rates and member bank borrowings are seasonally adjusted.

Percent



\$ Billion



\$ Billion



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